

# Pension Advocacy

## Funding Public Pensions in 2013

### Teachers Retirement System



#### TRS History:

The system was established by the State of Montana in 1937 to provide retirement, death, and disability benefits to teachers and professional staff. Initial enrollment was 3,367.

#### TRS Members:

Retirees and beneficiaries:	13,363
Current active members:	18,372
Local School Districts:	352
Community Colleges:	3
University Units:	2
State Agencies:	9

#### Why Public Pensions?

- Recruitment of teachers
- Retention of quality teachers
- Compensation of committed teachers

#### Public Benefits of Pension Plans\*

##### Social:

- Lowers poverty rates for elderly
- Reduces demand for public assistance

##### Economic:

*Expenditures from state and local pensions in Montana supported:*

- 5,332 jobs that paid \$175.4 million in wages and salaries
- \$600.3 million in total economic output
- \$94 million in federal, state and local tax revenues

(\*Source: National Institute on Retirement Security)

#### 2013 Funding Issues:

The Teachers' Retirement System (TRS) has lost investment income due to poor stock market performance. As a result, as of July 1, 2012, the current contribution rates are not sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the Retirement System over 30 years. Therefore, based on the July 1, 2012, actuarial valuation the System is not actuarially sound and needs a contribution rate increase of 4.89%, and/or a combination of new revenues together with reductions in future liabilities. Without contribution rate increases, reductions in benefits, and/or extraordinary investment gains, TRS is in danger of becoming insolvent.

#### 2012 Actuarial Valuation- July 1, 2012

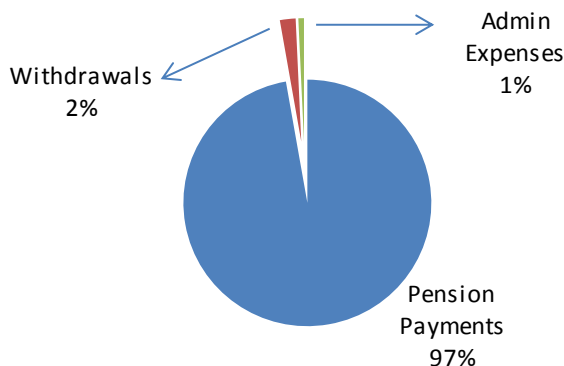
- Funding declined from 61.53% to 59.24%
- Unfunded liability increased from \$1.79 billion to \$1.96 billion.
- Good news: current statutory contribution rates already fund 55% of that liability, leaving a shortfall of about \$870 million, **not** \$1.96 billion.
- Required contribution rate requires an increase of 4.89% (17.11% to 22.00%)
  - This means TRS needs additional funding of approximately \$36 million a year, and/or equivalent reductions in liabilities.

#### How is Montana TRS Currently Funded?

- Employees: **7.15%** of gross monthly compensation
- Employers: **7.47%** of employee compensation
- University: **4.72%** of employee compensation
- State: **2.49%** of employee compensation

All contributions are pooled and invested under professional managers through the Montana Board of Investors. **Investment income plus contributions are the sources of TRS revenue.**

#### TRS Fund Deductions: 2012





# Funding and Legislative Updates

Teachers' Retirement System ~ page 2

## Current Situation

- ♦ Members contribute 7.15% of their gross monthly salary
- ♦ Employers and the State contribute to the system as a whole, not to each individual member's account.

Full retirement benefits are available to members who have:

- Attained age 60 with at least five full years of service;
- Been credited with 25 or more years of service, regardless of age;

Reduced retirement benefits are available to members who have:

- Attained age 50 with at least five years of service

Benefit Formula:

- Years of Service x Average Final Compensation (3 highest years) x 1.6667% (multiplier) = Annual Benefit in 12 equal monthly payments.

## Actuarial Funding

The Montana Constitution requires public pensions to be funded on an actuarially sound basis: Total revenue must fund future payments.

Due to declines in the market, TRS is no longer funded on an actuarially sound basis and as of 7/1/2012 had an unfunded liability of \$1.96 billion. 55% of this is funded by current statutory contributions which leaves a funding shortfall of \$870 million.

## Collaborative Solutions

The State Administration and Veterans' Affairs (SAVA) Committee and the Legislative Finance Committee are interim committees that have agreed to work with the Governor's Office and TRS to draft legislation that will ensure the actuarial health of the pension funds.

In addition, TRS surveyed the plan members to ask for suggestions. The answer was, *"We can live with some changes if we all share in lifting the load."*

Some members voiced concern that lawmakers may overreact to the situation, *"[TRS] is in need of some shoring up but it is not in such dire straits that it needs to be completely overhauled."*

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## Summary of Current TRS Legislative Proposals

### Funding

Increase Revenues:

- **New Members:** education professionals joining TRS after July 1, 2013 would see the most changes from the current plan:
  - Contribution rate of 8.15% with triggers to reduce/increase by 1%.
  - Full benefits at age 60 with 5 full years - or age 55 with 30 or more years - of service.
  - Early retirement eligibility at age 55 with at least 5 full years of service
  - Average final compensation increased to 5 years instead of 3.
  - Multiplier increased to 2% for members age 60 and older with at least 30 full years of service.
- **Current Members:** Employee contributions will increase by 1% on July 1, 2013 to 8.15% with triggers to move the rate between 7.15% and 8.15% as indicated by the health of the fund.
- **Employers:** Excess reserves in school district retirement fund accounts (\$14.7 million) be transferred to TRS as a one-time contribution. The State will provide 80% of the districts' transportation share in the fall to offset cash flow problems.
- **State:** The state will make an annual \$25 million payment to TRS from land trust revenues.

Decrease Liabilities:

**New Members:**

- Members eligible for unreduced *retirement* benefits would **not** be eligible for *disability* benefits.
- Unreduced survivor benefits limited to members who die while active member or within one year of leaving active service.

### Break in Service

**Future Retired Members:**

- **Post-Retirement Employment:** TRS members who terminate employment on or after January 1, 2014 would be required to wait 180 days before they are eligible to return to work in a post-retirement position reportable to TRS. *This will not affect members who are currently retired or who retire based on termination date before January 1, 2014.*

**NOTE:** These are proposals and have not yet been formally submitted to the Legislature.